

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 ABF-01 PA-02 STR-07
AGRE-00 CEA-01 /086 W
-----043216 132053Z /73

R 131908Z JUN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7701
INFO AMCONSUL CALGARY
AMCONSUL HALIFAX POUCH
AMCONSUL MONTREAL
AMCONSUL QUEBEC POUCH
AMCONSUL TORONTO POUCH
AMCONSUL VANCOUVE POUCH
AMCONSUL WINNIPEG POUCH

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DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING JUNE 9.

1. SUMMARY. SEASONALLY ADJUSTED CURRENT ACCOUNT DEFICIT
NARROWED TO CDOLS 637 MILLION IN FIRST QUARTER 1978 FROM
CDOLS 803 MILLION IN FOURTH QUARTER LAST YEAR. (SEE SEP-
TEL). END NEAR TO GOC/QUEBEC SALES TAX DISPUTE (SEE OTTAWA
2933). INDEXES OF INDUSTRY SELLING PRICES AND WHOLESALE
PRICES ADVANCED SHARPLY IN APRIL. HOUSING STARTS DECLINED
IN MAY. PRELIMINARY STATISTICS FOR APRIL SHOW POSSIBLE
CONTINUED INCREASE IN TRAVEL DEFICIT IN SECOND QUARTER.
BOND FINANCING DECLINED IN APRIL FROM MARCH LEVEL. DOMES-
TIC CAPITAL MARKETS RECEPTIVE TO RECENT ONTARIO HYDRO BOND
ISSUE, BUT LESS SO TO HYDRO QUEBEC ISSUE. SHORT TERM
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INTEREST RATES ROSE SLIGHTLY IN WEEK; BOND YIELDS WERE
UNCHANGED FROM PREVIOUS WEEK. CANADIAN DOLLAR EXCHANGE
RATE DRIFTED LOWER IN CALM MARKET DURING WEEK BUT PACE OF
DECLINE SUBSEQUENTLY PICKED UP ON NEWS OF ACCELERATION OF
WHOLESALE PRICE INCREASE IN APRIL. END SUMMARY.

2. CURRENT ACCOUNT BALANCE: SEASONALLY ADJUSTED CURRENT

ACCOUNT DEFICIT NARROWED TO CDOLS 637 MILLION IN FIRST QUARTER 1978 FROM CDOLS 803 MILLION DEFICIT RECORDED IN FOURTH QUARTER, 1977. TRADE SURPLUS EXPANDED BY CDOLS 274 MILLION TO CDOLS 1.4 BILLION, WHILE DEFICIT ON SERVICES INCREASED BY CDOLS 97 MILLION TO CDOLS 2.1 BILLION. NET INTERVENTION IN SUPPORT OF DOLLAR TOTALLED CDOLS 1.6 BILLION IN QUARTER (SEE SEPTTEL).

3. SALES TAX ISSUE. END TO GOC/QUEBEC SALES TAX DISPUTE IS CLOSE AT HAND. PQ ANNOUNCED IT WOULD ACCEPT MODIFIED VERSION OF EARLIER GOC COMPROMISE PROPOSALS (SEE OTTAWA 2933).

4. ECONOMIC INDICATORS:

-- INDEX OF INDUSTRY SELLING PRICES (SA) ADVANCED BY 1.2 PERCENT TO 185 (1971 100) IN APRIL. APRIL INCREASE WAS LARGEST SINCE JANUARY/DECEMBER RISE OF 1.3 PERCENT AND WAS LED BY STRONG INCREASE IN PRICES OF FOOD, PRIMARY METALS AND PAPER PRODUCTS. IN TWELVE MONTHS TO APRIL, INDEX ROSE BY 7.1 PERCENT. WHOLESALE PRICE INDEX (SA) REGISTERED LARGEST INCREASE IN MORE THAN A YEAR, RISING BY 1.8 PERCENT TO 599.3 (1935-39 100) IN APRIL. CULPRITS IN RISE WERE FOOD, WOOD, IRON AND NON-FERROUS METALS.

-- HOUSING STARTS WERE AT SEASONALLY ADJUSTED ANNUAL RATE OF 195,000 IN MAY, DOWN BY 6.3 PERCENT FROM APRIL LEVEL
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AND OFF 19.8 PERCENT FROM LEVEL OF APRIL, 1977. GOC SPOKESMAN NOTED THAT SHARP DROP IN HOUSING STARTS IN APRIL WAS REACTION TO EXCESSIVELY HIGH RATE OF STARTS EARLY IN YEAR AND THAT AVERAGE FOR 1978 SHOULD BE IN 240,000 TO 250,000 RANGE.

-- PRELIMINARY STATCAN TRAVEL FIGURES (NSA) FOR APRIL INDICATE THAT ON A YEAR TO DATE BASIS, VISITORS TO CANADA DECLINED 3 PERCENT FROM COMPARABLE 1977 PERIOD TO 6.1 MILLION. CANADIAN TRAVEL ABROAD FELL BY 1 PERCENT TO 11.2 MILLION. LARGEST DECLINE OVER THIS PERIOD WAS IN VISITORS TO CANADA FROM U.S. WHICH WERE OFF BY 2.4 PERCENT AND BY 9.8 PERCENT BETWEEN MARCH AND APRIL (VS. 7.8 PERCENT FALL IN MONTH IN CANADIAN VISITORS TO U.S.). SEASONALLY ADJUSTED TRAVEL DEFICIT INCREASED FROM CDOLS 354 MILLION IN FOURTH QUARTER 1977 TO CDOLS 471 MILLION IN FIRST QUARTER THIS YEAR. LATEST TRAVEL FIGURES IMPLY THAT INCREASE IN DEFICIT MAY HAVE CONTINUED INTO SECOND QUARTER.

5. CAPITAL MARKETS: ACCORDING TO STATISTICS PUBLISHED BY WOOD, GUNDY LIMITED, TOTAL PUBLIC AND PRIVATE GROSS BOND FINANCING (OVER 3 YEARS IN MATURITY) WAS CDOLS 1.2 BILLION

IN APRIL COMPARED WITH CDOLS 2.1 BILLION IN MARCH. DECLINE IN MONTH ATTRIBUTED MAINLY TO ABSENCE OF GOC LONG TERM FINANCING. TOTAL FOR APRIL BRINGS FINANCING FOR FIRST FOUR MONTHS OF 1978 TO CDOLS 5.8 BILLION, DOWN FROM CDOLS 6.6 BILLION IN COMPARABLE 1977 PERIOD. AN ESTIMATED TWO-THIRDS OF TOTAL FINANCING IN 1978 HAS BEEN DONE IN CANADIAN MARKETS (FIGURES DO NOT INCLUDE CONSORTIUM BANK LOANS). 6. HYDRO ONTARIO FLOATED 25 YEAR CDOLS 200 MILLION DOMESTIC BOND ISSUE, PRICED AT PAR WITH 9.5 PERCENT COUPON. ISSUE RECEIVED ENTHUSIASTICALLY BY MARKET AND QUICKLY MOVED TO PREMIUM. IN CONTRAST, QUEBEC HYDRO 30 YEAR ISSUE

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OF CDOLS 125 MILLION (OF WHICH CDOLS 60 MILLION WAS OFFERED TO PUBLIC), CARRYING 10.1 PERCENT COUPON HAD TO BE SOLD AT DISCOUNT, RAISING YIELD TO 10.14 PERCENT. HYDRO QUEBEC ALSO PLANNING U.S.DOLS 50 MILLION EUROBOND ISSUE.

7. SHORT TERM INTEREST RATES ROSE SLIGHTLY IN WEEK. INTEREST RATE ON THREE MONTH TREASURY BILLS WAS 8.23 PERCENT COMPARED WITH 8.20 PERCENT PREVIOUS WEEK. BOND YIELDS WERE UNCHANGED.

8. EXCHANGE RATE: CANADIAN DOLLAR EXCHANGE RATE EASED DOWNWARD IN CALM MARKET. CLOSING RATE FOR WEEK WAS 89.33

US CENTS COMPARED WITH 89.35 U.S. CENTS PREVIOUS WEEK.
PACE OF DECLINE SUBSEQUENTLY INCREASED ON NEWS OF ACCELER-
ATION IN WHOLESALE PRICE INCREASES IN APRIL AND DOLLAR
FELL TO 89.06 ON MONDAY, JUNE 12. DUEMLING

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